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RUEHDM/AMEMBASSY DAMASCUS 0013

RUEHKU/AMEMBASSY KUWAIT 0612

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RUEHMO/AMEMBASSY MOSCOW 0130

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TAGS: ECON POL PGOV PREL IZ EINV

SUBJECT: EVOLUTION OF INFLUENCE IN IRAQ: COMMERCIAL

ENGAGEMENT AS A POLITICAL TOOL

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11. (C) SUMMARY: Iraq's evolving political and economic environment has led to increased engagement from other countries using commercial advocacy on behalf of their national political interests. The GOI has begun to engage a number of countries in high level commercial dialogue, and despite its budgetary challenges, is providing contracts to international firms for materials, goods, and services. We expect that the GOI will use these commercial relationships not only for its economic benefit,

but also to achieve political and diplomatic objectives,
including balancing the perception of undue U.S. influence.
END SUMMARY.

THE CHANGING FACE OF ECONOMIC ENGAGEMENT IN IRAQ, AN OVERVIEW:

RUSSIA/CHINA

¶2. (C) Punctuated by Prime Minister Maliki's state visit to Moscow earlier this year, Iraqi-Russian commercial ties are strengthening. Long a commercial and military trading partner with Iraq during the Saddam era, Russia is expanding its commercial engagement, with dedicated commercial advocacy offices in both Baghdad and Erbil. Most notably, Lukoil and Gazprom participated in the recent oil and gas bid round (ref A), and post continues to hear reports of visits from Russian business executives in addition to discussions between the GOI and GOR on foreign military sales. (Note: Russian Deputy FM Alexander Sultanov recently met with PM Maliki and expressed Russia's desire to assist Iraq with economic development. Additionally, Sultanov announced plans for a Russian/Iraqi Investment Conference to occur in 2010. End Note)

¶3. (C) China is posturing to be a major player in the oil and gas sector and has shown interest in the construction and telecommunications sectors as well. Together with British Petroleum, CNPC was the sole international oil company (IOC) to agree to commercially unattractive terms in Iraq's recent oil and gas bid round (ref A). CNPC is already working on a smaller field (Ahdab) near Baghdad. China appears to be adopting the same model in Iraq that it utilizes in other developing countries, namely the importation of low cost Chinese labor to reduce costs and the focus on using state assets to acquire natural resources with little concern for profitability. (Note:

CNPC has experienced a measure of local resistance to the company,s use of imported Chinese labor at Ahdab. End Note.)

THE EUROPEANS: "WE DON'T HAVE THE SAME BAGGAGE."

¶4. (C) France, Germany, Sweden and the U.K. have signed bilateral commercial agreements with the GOI. With the exception of the U.K., the Europeans see themselves as having a commercial advantage over the United States because they do not have the same public perception Qbecause they do not have the same public perception challenges arising from our military presence. France and Germany have a history of doing business in Iraq during the Saddam era and are re-kindling those ties and relationships. In the past six months, we have seen nearly a

BAGHDAD 00002744 002 OF 004

dozen high-level commercial visits and/or delegations from European countries; among the most visible are: French President Nicholas Sarkozy, the U.K.'s Lord Peter Mandelson, and German Foreign Minister Frank-Walter Steinmeier. (Note: Major European companies currently contracting with or negotiating with Iraq include: EADS, British Petroleum, Lefarge, Total, Shell, and Deutsche Bahn. End note.) In a recent meeting, the German trade representative to Iraq made special mention that "we don't have the same baggage as you" when discussing Germany's business prospects in Iraq. The Governments of France, Sweden and Germany are planning to hold investment conferences with the GOI in the coming months.

¶5. (SBU) Another examples of European activity includes the recent visit of French Prime Minister Francois Fillon, who brought with him a trio of French companies and a variety of

MOUs to be signed with the GOI on commercial and security-related areas of cooperation. Speaking at a press conference during the French visit, GOI spokesman Ali al Dabbagh noted that "our country wants to become a strategic partner (with France), especially in the economic field." Post has also noted the development of the familiar Boeing vs. Airbus interplay for commercial aviation contracts, in which Boeing claims Airbus is lobbying the GOI to cancel its current contract with Boeing in exchange for a comparable Airbus offering with 100 percent Airbus/EADS Financing.

JAPAN/SOUTH KOREA

¶6. (C) The Japanese also see themselves as having an advantage in Iraq, given their lack of strategic intervention in the region and historically strong commercial ties. Primarily concerned with the energy sector, the Japanese continue to enlist USG assistance to support their risk adverse diplomatic mission in Iraq. After a spring trade delegation in Iraq led by senior MOFA officials, the GOJ hosted senior GOI officials in Tokyo in June. Likewise, South Korean economic interests are notable, particularly in the Kurdistan region. With commercial representation at their Embassy in Baghdad and a Consulate in Erbil, South Korean firms are engaging in the oil and gas, energy, engineering, manufacturing (steel) and auto sectors.

REGIONAL INTERESTS

¶7. (C) The geographic proximity of Turkey, Jordan, Lebanon, Syria, and Egypt encourages natural trading partnerships. These countries continue to do business in and with Iraq. The relationship between Turkey and Iraq, predicated on

security and cross border cooperation, has improved dramatically in recent months. Turkish PM Recep Tayyip Erdogan made his first state visit to Iraq earlier this year and is planning another for late 2009. Turkey's commercial interests continue to grow, particularly in the Kurdistan region, but they are also focused on Mosul, Baghdad, and Basra where it recently opened a consulate. Turkish companies are operating in the oil, construction, QTurkish companies are operating in the oil, construction, transportation, and defense sectors, and Turkish interest in Iraqi natural gas is keen (ref C). (Note: PM Maliki recently committed Iraq to supply roughly half of the gas for the proposed Nabucco pipeline, a pledge that reveals the desire to be a regional energy supplier in the coming years (ref B) End Note.) The Egyptian Minister of Investment visited Baghdad in August with a delegation of eighty businessmen and government officials, signing several MOUs. The UAE, Saudi Arabia, Qatar, and Kuwait could become influential in Iraq's economic development by

BAGHDAD 00002744 003 OF 004

leveraging their substantial capital resources.

IRAN: UNIQUE CHALLENGES

¶8. (S) Sharing a border of nearly 1000 miles, Iran has long been a key trading partner with Iraq and the commercial ties continue today. Reliable statistics are hard to come by; however, the bilateral trade relationship appears to favor Iran given its stronger manufacturing and export sector and ability to penetrate the Iraqi market. The relationship presents several unique issues in the context of broader policy concerns for governance, Sunni-Shia-Kurdish relations, and domestic and regional influence. From a purely economic standpoint however, the

challenge remains in separating legitimate commercially-focused Iranian trade and investment in Iraq from that which serves malign political or ideological agendas. Iranian commercial interests focus chiefly on exports to Iraq, construction (including religious sites), religious tourism, banking, and project finance. These efforts form an important part of Iran's 'soft power' approach to expanding its sphere of influence in Iraq and the region. In discussions with Iraqi businessmen, post frequently hears that Iraqis do business with Iran largely out of necessity and proximity.

WHY SHOULD WE CARE? - WHERE THE IRAQIS ARE GOING

¶9. (C) The GOI is beginning to utilize commercial relationships with a wide variety of countries not only for economic benefit, but also for its political and diplomatic objectives. One objective that is becoming increasingly clear is Iraq's desire to distance itself from the perception of undue USG influence. As the world learned at Iraq's last oil and gas bid round, the GOI is not afraid to drive a hard bargain, even when faced with significant budgetary pressures (ref A). The political influences on economic structures are many, and Iraqi nationalism is not a concept to be taken lightly by the international community. Iraq's actions in widely engaging the world's major powers may belie a strategy that places commercial engagement as a major tool in their political and diplomatic toolbox.

WHY SHOULD WE CARE? - THE STRATEGIC FRAMEWORK AGREEMENT
(SFA)

¶10. (SBU) The USG has committed to assisting the GOI with

economic development and integration into the global marketplace within the context of the SFA. Initiatives such as Iraq's accession to the WTO, ratification of the OPIC Investor Incentive Agreement, the Trade and Investment Framework Agreement, and the Bilateral Assistance Agreement are all priority issues currently being addressed, although progress remains slow. In addition to USAID programs targeting economic development, other examples of USG assistance include the DOC Commercial Law Development Program (CLDP), funding for land registration technology modernization, an extensive judicial training program that will in part, focus on commercial and customs law, and the October 20-21 USG/U.S. Chamber of Commerce-hosted U.S.-Iraq Business and Investment Conference.

COMMMENT

BAGHDAD 00002744 004 OF 004

¶11. (C) Despite the many high-level visits, MOUs, and agreements, few international companies, including from the United States, have had tangible commercial successes in Iraq. That said, demand for U.S. products and investment presents opportunities in almost every sector of the Iraqi economy. The upcoming October 20-21 U.S.-Iraq Business and Investment Conference in Washington has the potential to measurably build on this demand and improve overall commercial ties.

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